THE NATIONAL CITY BANK OF NEW YORK

1937

Economic Conditions
Governmental Finance
United States Securities

New York, April, 1937

General Business Conditions

THE business upswing has continued during March. The trend has been upward in prices, turnover, and on the whole in industrial activity, despite the curtailment forced on some industries by strikes. Automobile production has been reduced by the closing of the Chrysler and Hudson plants, tire output curtailed by a strike against Firestone, and business in many places harassed by "sit downs" of varying seriousness. Obviously these interferences limit the improvement. In the aggregate of industrial operations, however, the setbacks are the exceptions. The industries which are free to go ahead without restraint are for the most part increasing their output, and they are selling their goods readily.

Easter retail trade has been handicapped by unseasonably cold weather in many sections, but results nevertheless have been fairly satisfactory, and sales have exceeded last year in volume as well as dollars. Among retailers optimism is the rule. A period in which the money income of both factory workers and farmers is increasing faster than the cost of living is of course favorable for retailing and for the consumer goods industries; and that is the situation at the moment.

Boom Area Widening

Undoubtedly the area over which boom conditions prevail is widening. Many of the manufacturing industries are operating close to their practical capacity, allowing for the limitations due to obsolete equipment and shortage of skilled labor. It is something to ponder that, with all the unemployment and depression still existing in some quarters, the present output of steel, textiles, the newer types of household goods, and many articles used in the industries, is greater than ever before known; and automobiles will be on this list as soon as the labor situation permits. Retail sales of automobiles in January and February broke all records for those months, dealers' stocks are abnormally low, and manufacturers will have to go "all out" to meet the demands of the Spring sales season. The industries which are still considerably short of their capacity, chiefly utility and railway equipment and construction materials, are in an encouraging uptrend.

Prices of staple industrial materials have risen again, extending the advance which began last November, and the rise is due to the demand, as production in most cases is expanding. The action of the steel companies in raising wages and prices, setting a precedent which other industries are following, is the most important new development in the price situation. It directly raises the cost of things made of steel; and with the industries generally started on another cycle of wage increases, and prices of all raw materials higher, the price trend in manufactured goods is established as emphatically upward. The response in the markets has been another movement of forward buying.

Difficulty in obtaining goods for prompt shipment is the rule in some lines, and sellers are generally unwilling to make contracts for forward delivery except with provisions to protect themselves in the event of price advances or interruptions in production or transportation.

A Sellers' Market in Steel

In the "Iron Age" review of the steel markets, dated March 25, appears the following:

> Seldom if ever in the history of the steel industry, not excluding 1920 and 1929, has there been so decidedly a sellers' market. . . . A common occurrence is the arrival of buyers at the home offices of steel companies to plead for preferential treatment.

The publication further states that March bookings of steel will exceed any other month of the movement, although the buying for several months past has been very heavy. President Fairless of Carnegie-Illinois says the U. S. Steel Corporation is six to eight weeks behind in shipments, and is turning down foreign business because of inability to take care of domestic orders. He foresees at least six months' operations at practical capacity. Average mill operations for the industry have been pushed up to 90 per cent of capacity, a rate which can

be exceeded only as furnaces not used since 1930, and possibly not intended to be used again, are reopened. In any event shortage of pig iron capacity and of scrap is a limitation on higher output.

Many cotton and woolen goods manufacturers have raised wages again, as they did last Fall, and woolen goods lines were repriced on higher levels in the middle of the month. In both industries business picked up upon the prospect of higher costs, and both have added to the backlogs on their order books. Price advances have been made in clothing, with others to come in the Fall when present goods prices have to be passed on. Shoes and tires are up again, and other manufactured articles. The Fairchild index of retail prices of department store merchandise has risen for the eighth consecutive month, and on March 1 stood some 6 per cent above a year earlier.

The congestion of orders, and the feverish rise in wages and prices, are mainly results of the years of depression. Capacity of the industries is excessive in a depression, purchases of equipment are postponed, expenditures are avoided, inventories and stocks of goods run low. Industrial equipment is allowed to become obsolete, in the sense that it cannot compete with up-to-date types. Then comes the increase in buying, reflecting the recovery of agriculture and reviving employment in the industries. Orders gain upon production, industries wake up to a lack of capacity, prices stiffen and business is stimulated. Deliveries fall behind, there is more stimulation, congestion, and talk of a boom.

Strong Points in the Outlook

There are two views that may be taken of these developments, and it is not hard to find good reasons for either. The optimistic view is supported by the evident fact that the industries have heavy backlogs of unfilled orders; and there are no indications, either in available figures or from general testimony, that inventories are of threatening size. Some business is dammed up by strikes, and there will be lost time to make up. It can be shown readily that the new wage increases and the industrial improvement are bringing total payrolls of the manufacturing industries almost back to 1929 levels; and with prices lower than in that year the buying power of industrial labor is the greatest in its history. For the farmers this is the slow season in the movement of crops and livestock, but their income is running far above a year ago; the increase in February, including soil conservation payments, was 24 per cent.

Moreover, optimism finds support in the argument that the capital goods industries are going ahead strongly, that the need for construction, equipment and modernization work is urgent, and that until these industries have caught up with the consumers' goods group and are also working at capacity the general trend will be upward, irrespective of temporary fluctuations. It sees the governments of the world competing with the industries for materials and labor, forcing production upward and raising prices so that the high-cost producers in many lines can work at a profit as well as those with low costs. It sees other influences at work on prices, tending to keep buyers active in covering forward requirements. These influences include not only the demands of labor, but the possibility of an inflationary credit expansion based upon the write-up of the gold stocks in all countries, the great increase in production of gold, and the deficits incurred at the present rate of expenditure by all the major governments.

The Opposing View

On the other hand, these same arguments can be used to the opposite effect, and to many will appear as weaknesses in the situation. It is hardly deniable that the conditions now existing in many markets are those which are more likely to appear toward the end than near the beginning of an upward movement. All business upswings run too fast at times. Speculators push them along, buyers over-estimate their requirements, and interruptions must occur while production and consumption are brought back into line. A very rapid expansion is hardly expected to last as long as a more gradual move.

The chief uncertainty is whether the higher prices will block trade, when they have to be passed on to consumers. So far the rise in retail prices has lagged considerably behind the rise in costs. Some of the increases in costs will be absorbed in reduced overhead, more efficient operations, and diminished profits, but the trend in the wholesale markets shows that a great part will appear in retail prices some time ahead. Until then the effect upon consumers' demands cannot be known. The danger is that consumers will not have the means to buy as much as the industries are hoping to produce, since all those whose incomes are not raised in proportion to the rise in prices will have their buying power curtailed. This includes a good many people, in both labor and the white collar class, and it may include the farmers if they have to take lower prices for their products in the Fall.

This reasoning supplies a comment on the statement that the industries have all the business booked or in sight that they need. The question is whether it will stay in sight at the higher costs.

The competition which the governments are giving to private business by their economic activities is to many observers a cause for

alarm rather than a boon. It is true that purchases for armament, when they reach our markets, are indistinguishable in effect from the demands generated by world recovery; we see only the orders for steel scrap, copper and other products and manufactured articles. But the ultimate effect will be different than if the materials were going into productive use, for they are set aside for destruction and add nothing to the store of wealth used for the general welfare. Meanwhile all industrial costs are raised. Activity of this kind is an impermanent foundation for recovery, and actually a cause of instability in private business.

Financially the armament programs are a burden on all countries. They must be financed either by depriving the people of goods which would raise their standard of living, or by borrowing, which cannot be carried too far without inviting disaster. Naturally talk of inflation has been stimulated. There is fear that rising prices will call out private credit in vastly increased amounts, to be added to the credit created in financing government deficits. The danger is of a spiral of wage and price increases and credit expansion, all without commensurate increases in production and well-being.

Influence of Wage Increases

The acceleration of the wage and price increases has undoubtedly prompted more thinking along the lines just described than has hitherto been common. It is right and to be expected that wage earners shall have a voice in fixing wages, and it is not of itself a serious matter that they are quick to demand higher wages when conditions are such that they can be paid. However, the operation of the law of supply and demand requires freedom of readjustment downward as well as upward; and unfortunately if the increased prices in some lines prove to be more than the markets can absorb it is likely to be difficult to get them down again. The outcome in that event will be reduced sales, shutdowns, and unemployment; and according to precedent the difficulty will be corrected only after the situation topples backward into depression.

Of course this is not an imminent danger, as the earlier comments on the markets indicate. But it is a general uncertainty, of concern to business men who are attempting to make plans very far ahead. Those who have construction and expansion programs in hand are disquieted by the effects of increased costs upon their own calculations, as well as by the more general considerations.

The principle involved is the principle of balance in economic relations. The essential condition of prosperity is that prices, wages and costs shall be in equitable relationship so that each group of producers will have purchasing power for the products of other groups. If one group tries to gain advantage over others it can succeed only temporarily, for if its costs are higher than other groups can pay for, it will lose its markets and its workers will quickly lose through reduced employment their nominal gains in money wages. The whole economic situation will be affected. Workers and employers frequently assume that the issue in industrial questions is wholly between themselves, but in truth it is between each group, employes and employers both included, and all other groups of the population.

Building Costs

The upward trend of building costs is worthy of particular reference, in view of the prominent part that building is expected to play in carrying the recovery forward. It is difficult to obtain truly representative indexes of building costs, because of the differences in different sections, varying types of construction and different scales for union and non-union labor. However, the index of building material prices compiled by the Bureau of Labor Statistics is 7 per cent higher than on January 1, with further increases now to be added. The American Appraisal Company's index of construction costs in February was 11.4 per cent over a year earlier, and recent rises not included.

In New York City a number of wage increases and changes in working practices are scheduled, all to be passed on to consumers. Bricklayers, now receiving $12 for an 8-hour day, are expected to get $13.20 for seven hours. The plasterers' day is to be cut from 8 to 6 hours, pay unchanged at $12.

Whether because of these increases or other factors, latest building figures have been disappointing. Contracts awarded in the first half of March were slightly below February, although a large seasonal increase is normally expected. Moreover, the gain above the same period last year dropped to only 4 per cent. The period of course is too short to draw conclusions from. The need for new residential construction is great; but costs higher than consumers can pay can cause postponements, limit the improvement, and divert the interest of prospective builders to the older houses still on the market.

Farmers' Planting Intentions

Prices of farm products on March 15 were 23 per cent higher than a year earlier, and farmers are responding by preparing to increase acreages in practically all crops. According to the Department of Agriculture's annual report on intentions to plant, the acreage for harvest in Spring wheat will be 87 per cent greater than the drouth-reduced area

of last year, and slightly above average. This increase comes on top of an increase of 15 per cent in Fall plantings; and under favorable conditions the total wheat acreage harvested may be as much as 40 per cent greater than last year, and 10 to 15 per cent above the average.

The condition of Winter wheat is spotted but better than a year ago, and some of the reports from Kansas, the greatest wheat growing State, are very hopeful. Western Kansas has had more Winter rain and snow than in several years, and crop reporters are agreed that the State's prospect is decidedly the best since the 252,000,000 bushel crop in 1931. Private estimates of the total Winter wheat crop issued April 1st averaged 655,000,000 bushels. Much of the Spring wheat area is still dry, and the yield will depend upon moisture during the growing season.

Despite the prospective larger crop, wheat prices have risen to the highest level in eight years, and the new crop months in the futures market have been even stronger than the old crops. The pronounced strength of foreign markets, and the great reduction in world reserves, have diminished fears of the impact of an increased supply on the markets. If Kansas makes in excess of 200,000,000 bushels and can sell it at between $1 and $1.25 on the farms, the merchants who do business with farmers in that State will not have much to worry about.

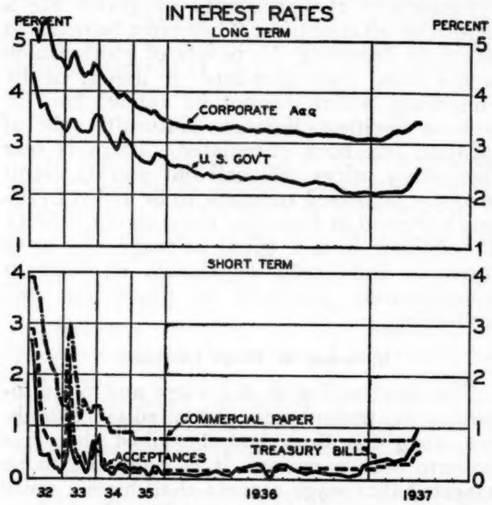
The probable corn acreage for harvest, according to the Department, will be increased 2 per cent, oats 7, barley 31, and grain sorghums 7. Under normal conditions yields will be much higher than in the drouth year 1936, and the larger supplies will be welcomed by the hog growers, cattle feeders, dairymen and poultrymen. The outlook for meat prices is good in view of the high industrial purchasing power and a prospective decline in hog slaughter. With lower feed costs the livestock industries should do very well.

No report is issued on the prospective cotton acreage, but analysis of the area to be planted to other crops in the cotton belt supports the general idea that the cotton acreage will be around 10 per cent over last year.

Money and Banking

The past month has been an eventful one in the financial markets. The further hardening of short-term money rates, and the severe slump of Government and other high grade bonds, have been important developments. Ever since intimations late last year of a second increase in required banking reserves, the short-term money market has been tending to firm up. Weakness in the bond market, however, did not become pronounced until February, and then was confined largely to high grade corporate and municipal bonds, Government issues holding steady or reaching new high levels. During the past month Government bonds joined the decline under a wave of selling that caused losses of 3 to 4 points and carried the recently issued 2½s of 1953/49 to a low of 98 10/32. The Dow-Jones average of 40 corporation bonds declined 2 points, extending the net loss since the December, 1936, peak to 4 points.

In the accompanying diagram we trace the movement of interest rates, both long and



short, as represented by Moody's indexes of yields of U. S. Government and triple A corporate bonds, and by open market quotations on commercial paper, bankers' acceptances and Treasury bills.

As indicated by the diagram, yields on Treasury bills (9 months maturity) have risen from under 0.10 per cent towards the end of November, last, to 0.711 per cent before a slight reaction occurred in the last week of March. Bankers' acceptances, which had been advanced once last Summer when reserve requirements were first raised, were marked up 5/16 to 3/8 of 1 per cent, the 90-day asked rate reaching 9/16, as against 1/8 at the depression low. With these advances in Treasury bills and acceptances, commercial paper dealers have brought their rates into line at 1 per cent prevailing for prime open market names, as against ¾ of 1 per cent formerly. Incidentally, volume of open market commercial paper has been increasing steadily, and in February was the largest since August, 1931, totaling $267,000,000. This was 52 per cent greater than the total in February a year ago, and a 10 per cent gain over January.

One of the theories disposed of in the past few weeks is that short-term interest rates could rise appreciably without affecting long-term rates. As indicated by the diagram, average yields on Government and high grade corporate bonds increased more than ¼ of 1 per cent from the low. Similarly, terms of new financing done during the past month revealed a change in the rate situation over a month ago, an illustration being the offering by the Philadelphia Electric Company of $130,000,000 thirty-year 3½s, originally scheduled as 3¼s. These bonds, priced at 102½, subsequently sold close to 99 upon dissolution of the underwriting syndicate.

Factors in Higher Interest Rates

Rising interest rates are a natural accompaniment of advancing commodity prices and expanding business, but one heretofore lacking, owing to the great quantity of idle bank reserves. Since the decision of the Federal authorities to reduce excess reserves by raising reserve requirements and sterilizing new gold receipts, the situation has been changing. While the margin of surplus reserve is still large, even after allowance for higher reserve requirements, it is not so large but that it might be reduced rather rapidly by a boom.

Under the circumstances it is not surprising that holders of low-yield bonds should be made uneasy by rising prices and costs, and by the wide publicity given to Washington warnings of inflation. Sooner or later the bond market was bound to reflect the influences of advancing recovery; only the timing remained uncertain. While the market was prepared for some advance in short-term interest rates, opinion as to long-term interest rates has been more divided.

Contributing to pressure on the Government market were preliminary reports that March tax collections were running below expectations, thus suggesting that the Treasury might be coming to the market for more new money than had been counted on. A congestion in the new issues market, coupled with curtailment of purchases on the part of large institutional investors such as the insurance companies, no doubt helped precipitate the general decline in bonds, which hardly would have gone so far but that conditions were fundamentally ripe for such a movement.

Condition statements of the Federal Reserve Banks for the weeks of March 17 and 24 revealed a shifting of the System's portfolio of Government securities from short to long issues, evidently with a view to cushioning the fall in market prices of the latter, though with the effect also of accelerating the rise of yields on the former. During the two weeks mentioned, the Reserve Banks added $98,000,000 to their holdings of Government bonds, while reducing their holdings of Treasury notes $73,000,000 and Treasury bills $25,000,000. At the same time the Treasury was understood to have been a buyer of bonds for account of various funds for which it acts as trustee.

With the rise of the discount rate on bankers' acceptances to somewhat above the ½ of 1 per cent buying rate of the Federal Reserve Banks, the market for this type of paper appeared to have reached at least a temporary resting point. While few bills were offered to the Reserve Banks, a small increase ($231,000) in the Reserve Bank portfolio of acceptances during the week of March 24 was indicative of a willingness on the part of the Reserve Banks to buy bills at current rates.

Trend of Member Bank Credit

At the member banks, the outstanding feature has been the continuing reduction in holdings of Government securities, and the steady rise of "other" loans, generally considered representative of business borrowing. During the four weeks ended March 24, holdings of Government direct and guaranteed securities by the weekly reporting banks in principal cities declined over $400,000,000, and at the last date were approximately $900,000,000 below the high point of last July. During the same period, "other" loans of these banks increased, and on March 24 were approximately $1,000,000,000 greater than at the low point of last year reached in February.

This shift of bank assets from Government securities to loans marks a reversal of the credit trend up to the past year. From the low point of the depression until lately, the expansion of bank credit and the financing of recovery have been almost wholly through purchases of Government securities by the banks. Now, as the figures show, the swing is in the other direction; the tendency is for bank purchases of securities to become a decreasing, and ordinary loans an increasing, factor in total bank credit outstanding.

With bank investments showing a decrease, and loans an increase, the combined total of loans and investments of weekly reporting banks declined during the first quarter of this year, and on March 24 was at practically the same level as in last July. This compares with a gain of about $1,700,000,000 during the first six months of last year, and nearly $1,500,000,000 during the entire year 1935. Deposits continued to increase up to the end of the year, owing largely to imports of gold, but since then have declined somewhat.

Figures of loans and investments, and of deposits of *all* member banks of the Federal

Reserve System, available through December 31, last, show a rapid expansion of member bank credit during the past three years. Owing largely to heavy purchases of securities, the total of loans and investments of these banks increased approximately $7¾ billions to a point within $3 billions of the total at the end of 1929. Deposits (exclusive of inter-bank), which were affected also by gold imports, showed an even greater gain, expanding more than $12 billions during the period to a point $2 billions above the previous peak which was in 1929.

Business Profits in 1936

With the publication during the past month of additional corporation reports for 1936, we give on the next page a final tabulation of earnings, embracing 2,140 industrial, public utility, railroad, financial and miscellaneous companies. Aggregate profits, after taxes and less deficits, amounted to approximately $3,633,000,000 in 1936, compared with $2,473,000,000 in 1935, or an increase of 46.9 per cent. As these companies had a capital and surplus of $49,143,000,000 at the beginning of 1936, profits last year were at the rate of 7.4 per cent on net worth, compared with 5.0 per cent in 1935. While the foregoing figures cover a representative cross-section of American business, they should not be considered as complete. For the latest official summary of earnings of all corporations in the United States, we refer the reader to the table on page 53, compiled from the Treasury "Statistics of Income" and covering the years 1916-1934.

Manufacturing and Trading Companies

Taking the manufacturing and merchandising group separately, figures for 1,600 companies, with aggregate net worth of $24,270,000,000, showed combined net profits, less deficits of $2,446,000,000 in 1936, compared with $1,606,000,000 in 1935, a gain of 52.3 per cent. The rate of profits return on net worth increased from an average of 6.6 per cent in 1935 to 10.1 per cent in 1936, a figure, however, which should be viewed in the light of the large decline in industrial capital and surplus that occurred during the depression.

Earnings of practically every major industrial group were higher in 1936 than in 1935, although numerous individual companies ran counter to the trend, and a considerable number still turned up in the red. In general, sharpest gains were in lines which had been most severely depressed, and whose profits had fallen to low levels or changed into deficits. This was particularly true of industries making producers' goods, such as iron and steel, non-ferrous metals, building materials and supplies, machinery and tools of all kinds, including agricultural, electrical, railway and industrial equipment. Gains in many of the consumers' goods industries, while more moderate than those in producer goods lines, brought a higher rate of return upon invested capital, for the reason that sales in these industries contracted less during the depression and were more prompt to reflect recovery.

Profit per Dollar of Sales

Each year an increasing number of companies include in their annual reports to shareholders figures of sales or gross income, which are extremely significant in showing changing volume as well as throwing light on the margin of net profits to sales upon which these companies operate. These margins necessarily vary according to different industries and different companies, depending upon the nature of the product, the risk inherent in the business, the importance of intangible assets such as trade names, good will, etc., relative to physical assets invested in plant, equipment, inventories, etc. However, the natural tendency of growing and efficient concerns is to strive to expand sales volume and dollar profits, while at the same time keeping profit margins low. Such a policy obviously is in the interest of both the public and the corporations. Under a competitive system of trade, it results in the more efficient producers and distributors obtaining an increasing share of the total business. This business they can retain only so long as they maintain their relative efficiency, inasmuch as the choice of the public is determined by considerations of price, quality and service offered.

In the table on page 52 are summarized the sales and profits of 577 leading manufacturing corporations and 93 merchandising corporations which reported sales figures for 1936; also the percentage of profits to sales, together with similar ratios for 1935. Net profits include not only income from sales, but also income from other operations and from investments, impossible to segregate but which results in some over-statement of the actual margin of profit upon sales, though hardly enough to affect materially the general trend.

The 577 leading manufacturing companies, representing some twenty major industries, had combined sales or gross income of approximately $16,062,000,000 last year, upon which combined net profits (including investment and miscellaneous income) totaled $1,219,000,000, or 7.6 per cent on sales. The 93 merchandising companies had combined sales of $4,080,000,000, with net profits of $197,000,000, or 4.8 per cent on sales.

Much of the rise that took place in the cost of doing business last year, due to the granting of wage increases, to higher prices paid for

PROFITS OF LEADING CORPORATIONS FOR THE YEARS 1935 AND 1936

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits Years 1935	Net Profits Years 1936	Per Cent Change	Net Worth January 1 1935	Net Worth January 1 1936	Per Cent Change	Per Cent Return 1935	Per Cent Return 1936
10	Agricultural Implements	$32,498	$ 54,181	+ 66.7	$ 426,011	$ 442,638	+ 3.9	7.6	12.2
18	Amusements	17,117	36,039	+110.5	359,800	372,727	+ 3.5	4.8	9.7
30	Apparel	6,980	10,338	+ 48.1	120,697	114,094	— 5.5	5.8	9.1
21	Automobiles	198,593	317,482	+ 59.9	1,257,076	1,292,220	+ 2.8	15.8	24.6
54	Auto Accessories	44,419	54,026	+ 21.5	311,625	324,919	+ 4.3	14.3	16.6
22	Aviation	6,783	11,990	+ 76.8	113,898	126,396	+11.0	6.0	9.5
19	Bakery	16,645	24,574	+ 47.6	305,552	300,022	— 1.8	5.4	8.2
68	Building Materials	23,660	48,247	+103.9	608,711	598,928	— 1.5	3.9	8.1
29	Chemicals	144,125	192,438	+ 33.5	1,225,986	1,262,383	+ 3.0	11.8	15.2
24	Coal Mining	D-1,243	3,031	+	504,147	458,999	— 9.0	......	0.7
21	Confectionery and Beverages	34,125	40,653	+ 19.1	166,008	173,327	+ 4.3	20.6	23.5
13	Construction	D-938	2,737	+	83,342	79,489	— 4.6	......	3.4
25	Containers	46,027	47,137	+ 2.4	411,091	419,181	+ 2.0	11.2	11.2
54	Cotton Goods	D-6,282	15,244	+	296,832	282,648	— 4.8	......	5.4
13	Dairy Products	17,308	27,043	+ 56.2	306,485	274,858	—10.2	5.6	9.8
21	Drugs and Sundries	36,708	42,204	+ 15.0	237,871	242,033	+ 1.7	15.4	17.4
50	Electrical Equipment	57,613	90,115	+ 56.3	765,217	781,025	+ 2.1	7.5	11.5
6	Fertilizer	3,639	1,104	— 69.6	80,381	81,777	+ 1.7	4.5	1.4
46	Food Products—Misc.	71,022	85,331	+ 20.1	709,769	708,610	— 0.2	10.0	12.0
38	Hardware and Tools	9,585	19,538	+103.8	161,973	167,241	+ 3.3	5.9	11.7
30	Heating and Plumbing	11,446	27,704	+142.0	309,937	314,590	+ 1.4	3.7	8.8
59	Household Goods and Sup.	40,716	56,512	+ 38.8	428,729	436,723	+ 1.9	9.5	12.9
16	Ice and Cold Storage	3,157	4,592	+ 45.5	108,860	97,293	—10.6	2.9	4.7
58	Iron and Steel	54,001	161,212	+198.4	3,714,369	3,433,814	— 7.5	1.5	4.7
8	Leather Tanning (a)	2,317	2,495	+ 7.7	59,391	55,872	— 5.9	3.9	4.4
46	Liquors	21,583	26,672	+ 23.5	127,228	139,393	+ 9.5	17.0	19.1
78	Machinery	21,777	47,913	+120.0	417,011	410,594	— 1.5	5.2	11.7
19	Meat Packing	27,313	30,923	+ 13.2	565,325	560,386	— 0.9	4.8	5.5
14	Mdse.—Chains, Food	16,329	16,964	+ 3.9	188,179	189,162	+ 0.4	8.7	9.0
44	Mdse.—Chains, Other	90,237	104,964	+ 16.3	600,781	632,362	+ 5.3	15.0	16.6
35	Mdse.—Dept. Stores	10,562	22,430	+112.4	280,870	286,210	+ 1.9	3.8	7.8
6	Mdse.—Mail Order	38,446	55,830	+ 45.2	336,157	366,298	+ 9.0	11.4	15.2
26	Mdse.—Wholesale, etc.	5,086	9,162	+ 80.1	112,166	113,996	+ 1.6	4.5	8.0
16	Mining, Copper	27,292*	41,332*	+ 51.4	988,334	994,512	+ 0.5	2.8	4.2
32	Mining, Other Non-ferrous	88,591*	112,353*	+ 26.8	898,279	955,953	+ 6.4	9.9	11.8
20	Office Equipment	25,671	34,442	+ 34.2	218,380	211,392	— 3.2	11.8	16.3
10	Paint and Varnish	9,765	12,606	+ 29.1	111,434	109,903	— 1.4	8.8	11.5
47	Paper and Products	3,152	23,565	+647.6	598,422	595,822	— 0.3	0.5	4.0
57	Petroleum	82,158	134,821	+ 64.1	1,610,754	1,592,305	— 1.1	5.1	8.5
10	Petroleum—Pipe Line	6,694	6,453	— 3.6	71,577	70,323	— 1.8	9.4	9.2
28	Printing and Publishing	17,915	20,839	+ 16.2	154,364	156,943	+ 1.7	11.6	13.3
26	Railway Equipment	D-3,284	26,617	+	742,616	715,535	— 3.6	......	3.7
11	Restaurant Chains	772	2,799	+262.5	58,596	57,166	— 2.5	1.3	4.9
22	Rubber Tires, etc.	17,156	42,083	+145.2	418,708	428,425	+ 2.3	4.1	9.8
10	Shipping	1,682	4,759	+182.9	108,933	110,712	+ 1.6	1.5	4.3
20	Shoes	14,821	15,364	+ 3.6	170,084	169,606	— 0.3	8.7	9.1
30	Silk and Rayon	10,079	14,324	+ 42.1	162,509	164,847	+ 1.4	6.2	8.7
44	Sugar	21,265	31,545	+ 48.2	441,448	448,687	+ 1.6	4.8	7.0
26	Textile Products—Misc.	12,619	19,141	+ 51.6	158,955	162,246	+ 2.1	7.9	11.8
29	Tobacco	87,722	98,509	+ 12.3	830,216	767,245	— 7.6	10.6	12.8
8	Woolen Goods	4,902	4,661	— 4.9	93,686	97,126	+ 3.7	5.2	4.8
87	Miscel. Manufacturing	65,798	93,886	+ 42.7	651,958	687,520	+ 5.5	10.1	13.7
46	Miscel. Services	9,596	14,888	+ 55.1	235,580	233,778	— 0.8	4.1	6.4
1600	Total Mfg. and Trading	1,605,720	2,445,812	+ 52.3	24,426,308	24,270,254	— 0.6	6.6	10.1
144	Class I Railroads	D-1,374	169,901	+	11,987,848	11,773,921	— 1.8	......	1.4
94	Electricity, Gas, etc. (b)	284,471	313,807	+ 10.2	5,187,780	5,189,276	+	5.5	6.0
28	Telephone and Telegraph	157,295	210,361	+ 33.7	3,276,806	3,204,737	— 2.2	4.8	6.6
24	Street Railways	D-3,940	D-1,888	—	487,529	482,068	— 1.1	......	......
61	Banks and Trust Cos.	149,248	164,180	+ 10.0	1,985,605	2,009,379	+ 1.2	7.5	8.2
62	Insurance Companies (c)	193,021	197,864	+ 2.5	598,867	753,773	+25.9	32.2	26.2
66	Investment Trusts (d)	45,576	76,126	+ 67.0	949,105	1,030,727	+ 8.6	4.8	7.4
26	Sales Finance Cos.	41,527	54,257	+ 30.6	249,565	297,214	+19.1	16.6	18.3
35	Real Estate	1,753	2,232	+ 27.3	141,712	131,979	— 6.9	1.2	1.7
2140	Grand Total	$2,473,297	$3,632,652	+ 46.9	$49,291,125	$49,143,328	— 0.3	5.0	7.4

D—Deficit. (a) Sample not representative of all branches of the industry because of the limited number of published reports available. (b) Figures refer to shareholders only. Because of the large proportion of bonded indebtedness, actual return on the property investment is less than the above. (c) Fire and casualty. Figures represent shareholders' combined gains or losses on underwriting and investments. (d) Net income shown as reported, not including such profits or losses on investments sold as were carried directly to surplus or reserves, or changes in the market value of portfolios. * Before certain charges.

Net Profit on Sales of Leading Corporations In 1935 - 1936

(In Thousands of Dollars)

No.	Manufacturing	Sales 1936	Profits 1936	Profits to Sales 1936	Profits to Sales 1935
6	Agricultural Implements	$ 896,049	$ 52,441	13.2	9.5
19	Automobiles	2,525,935	316,958	12.5	10.2
22	Auto Accessories	203,113	13,256	6.5	7.1
35	Building Materials	246,132	17,424	7.1	3.9
16	Chemicals	248,524	31,034	12.5	14.7
12	Containers	327,335	32,466	9.9	11.0
27	Cotton Goods	265,182	11,292	4.3	D-1.3
10	Dairy Products	752,222	26,510	3.5	2.8
9	Drugs and Sundries	340,846	25,667	7.5	7.1
18	Electrical Equipment	662,122	76,021	11.5	9.2
35	Food Products—Misc.	444,392	30,268	6.8	5.7
16	Heating and Plumbing	309,003	22,903	7.4	3.6
31	Household Goods	463,938	40,604	8.8	7.9
38	Iron and Steel	2,153,430	126,917	5.9	1.9
31	Liquors	239,231	23,266	9.7	10.9
16	Meat Packing	2,353,111	30,265	1.3	1.2
23	Paper Products	245,419	11,980	4.9	0.5
31	Petroleum	1,313,409	126,367	9.6	6.5
14	Rubber Tires, etc.	697,942	40,826	5.9	8.0
10	Shoes	200,595	12,835	6.4	6.9
158	Misc. Manufacturing	1,674,301	150,059	9.0	7.0
577	Total Manufacturing	16,062,236	1,219,359	7.6	5.6
	Merchandising				
11	Chains—Food	893,777	12,977	1.5	1.8
40	Chains—Other	1,518,252	104,346	6.9	6.7
26	Dept. Stores	512,494	19,659	3.8	1.8
6	Mail Order	940,566	55,830	5.9	4.9
10	Wholesale, etc.	214,961	4,584	2.1	1.5
93	Total Merchandising	4,080,050	197,396	4.8	4.7
670	Total Mfg. & Mdse.	$20,142,286	$1,416,755	7.0	5.4

D- Deficit.

raw materials and to higher taxes, was not passed on to the public in the form of higher prices for finished goods, but was absorbed by industry through the expansion of sales volume and the consequent lowering of unit costs. Whether or not the further rise in costs this year, due to labor troubles, changes in wages and hours, advances in commodity prices, social security taxes, etc., can be absorbed by industry or passed on to the public in higher prices without checking consumption is one of the most important question marks against 1937.

Railroads and Utility Companies

Last year the 144 Class I railroads had a combined net income after operating expenses, taxes and interest charges of $169,901,000,—the first year since 1931 in which the railroads as a group had fully covered their fixed charges. Total railroad operating revenues increased from $3,450,000,000 in 1935 to $4,053,000,000 in 1936. As a result of the higher rate of general business activity, total freight revenues were up 18.4 per cent last year and passenger revenues, aided by the increased travel stimulated by higher personal incomes and reduced fares, were up 15.1 per cent. However, notwithstanding improvement, total operating revenues in 1936 were about 64 per cent of the 1929 level, while net income represented a return of only 1.4 per cent upon the total railroad shareholders' equity, following four years of cumulative deficit amounting to $196,000,000. Moreover, the pooling of results in the statistics of railroads conceals the fact that many individual systems still fail to cover their charges and taxes. At the beginning of this year 71,134 miles, or 29 per cent of all railway mileage in the country, was being operated by trustees or receivers.

A tabulation of reports of 94 of the more important systems supplying electric light and power, gas and other services throughout the country, shows increases of 6.6 per cent in total operating revenues and 10.2 per cent in net income compared with a year ago. Average rates charged to customers for gas and electricity were reduced further last year, and many items of operating cost including wages, materials, supplies and taxes were higher; nevertheless the industry continued to improve its operating efficiency and to benefit from lower interest charges resulting from the large-scale refunding of bond issues.

Net income of the operating companies in the American Telephone & Telegraph System and of other telephone and telegraph systems increased sharply last year, despite an increase in operating costs and taxes, because of the expansion in volume of business and of increased efficiency. Street railway systems had some recovery in revenues, due partly to their bus operations, but in most cases were unable to realize much net income because of heavy taxation and inability to raise fares to meet increasing costs.

Financial Companies

Despite low interest rates, earnings of leading banks and trust companies were somewhat higher than in 1935. Reports of many of the banks show only net operating earnings, treating charge-offs and recoveries on loans, as well as profits on investments, as direct debits or credits to reserve accounts. Fire and casualty insurance companies enjoyed another substantial rise in the market value of their portfolios of stocks and bonds, following similar increases in 1934 and 1935, although income from underwriting was still subnormal.

Leading investment trusts showed a sharp increase last year in investment income which, in most cases, is exclusive of realized profits or losses on securities, or of changes in market value of portfolios. Sales finance companies benefited largely from the marked increase in instalment sales of automobiles and numerous other goods, with increases in volume of paper purchased by leading companies ranging from 20 to 50 per cent.

All Corporations in the United States

In our March issue, we presented the record of earnings of *all manufacturing corporations* in the United States for the entire period cov-

ered by the official income statistics, including the year 1934 for which preliminary figures only recently have been issued. We now give in the subjoined table a similar record, including relative statistics, for *all corporations,* numbering over 500,000.

While it is unfortunate that figures more recent than 1934 are not available, nevertheless, the statistics as far as they go are extremely valuable as presenting the most complete composite of corporate earnings experience that we have. We believe a presentation of these figures will be useful for the record. In the table, net income, including tax-exempt income, is given after taxes. The percentage rates of net income to gross and to net worth have been computed from the official figures.

All Corporations in the United States
(In Millions of Dollars)

Year	Gross Income	Taxes Paid	Net Inc. after Tax	Net Inc. to Gross	Net Worth	Net Inc. to Net Worth
1916......	$ *	$1,200†	$7,937	* %	$ *	* %
1917......	84,693	3,183	7,958	9.39	*	*
1918......	87,031	3,987	4,659	5.35	*	*
1919......	100,473	3,107	6,419	6.38	*	*
1920......	118,956	2,823	4,469	3.75	*	*
1921......	91,947	2,175	−55	−0.06	*	*
1922......	101,315	2,302	4,380	4.32	*	*
1923......	119,020	2,572	5,827	4.89	*	*
1924......	119,747	2,552	4,998	4.17	*	*
1925......	136,711	2,900†	6,971	5.09	110,290	6.32
1926......	142,629	3,108	6,774	4.74	113,957	5.94
1927......	144,899	3,145	5,880	4.06	119,260	4.93
1928......	157,848	3,387	7,636	4.83	132,403	5.76
1929......	161,158	3,415	8,084	5.01	142,887	5.65
1930......	138,848	3,009	1,375	0.99	160,369	0.86
1931......	108,057	2,630	−3,145	−2.91	161,082	−1.95
1932......	81,638	2,373	−5,375	−6.58	143,263	−3.75
1933......	84,234	2,547	−2,378	−2.82	133,569	−1.78
1934-P	100,134	2,800†	−480	−0.48	127,578	−0.38
Average 1917-34	$115,519	$2,900	$3,555	3.07	134,466	1.88§

Source: Compiled from annual Statistics of Income, Treasury Department. P— Preliminary. * Comparable data not reported. – Deficit. † Partly estimated. § Ten-year average, 1925-1934.

Attention is directed to the percentage rates of return on gross business and on net worth, which are at variance with exaggerated ideas current as to the profits of business in general. One of the particularly interesting features of the table is the heavy drain on corporate net worth shown to have resulted from the depression. Due to business losses, payments of dividends out of surpluses, and writing down of assets, equity capital of all corporations declined by $33,504,000,000 in the period 1931-33 to the lowest point since 1927. This was despite new capital invested in business during the intervening years.

It will be observed that final figures for 1933 showed a net deficit of $2,378,000,000, and the preliminary figures for 1934 a deficit of $480,000,000. The extent to which American corporate business has since gotten out of the red can be determined only when more recent figures become available.

The Burden of Corporate Taxes

A striking feature of the corporate summary presented in the preceding article is the size of tax payments in relation to net corporate income. With an annual average of $3,555,000,000 corporate income for the period 1917-1934, taxes averaged $2,900,000,000 annually, or more than four-fifths of the total corporate income that remained after taxes with the shareholders for the use and risk of their invested capital.

The Federal Government was given the power to levy a tax upon incomes by Constitutional amendment in 1913, and during the war period corporate and individual tax rates were revised sharply to meet in part the heavy war expenditures. Following the war, the tax collections by the Federal Government declined, but at the same time those by the States and local governments increased. The period 1920-1930 was one of great expansion in the building of roads, schools, public buildings, other public works, and of local government activities generally, financed in part by heavier taxes and in part by borrowing. Since the impact of the depression, and the resulting large relief expenditures, there has been a competition by all governments—Federal, State, municipal, special district, etc., numbering altogether some 175,000—for available sources of revenue at generally increasing rates.

Total Tax Collections in the United States

Year	Amounts in Millions: Total	Federal	State & Local	Amounts per Capita: Total	Federal	State & Local
1921	$8,838	$4,905	$3,933	$81.68	$45.33	$36.35
1922	7,502	3,487	4,015	68.28	31.74	36.54
1923	7,234	3,032	4,202	64.86	27.19	37.67
1924	7,812	3,193	4,619	69.01	28.21	40.80
1925	7,884	2,966	4,918	68.64	25.82	42.82
1926	8,605	3,207	5,398	73.84	27.52	46.32
1927	9,059	3,337	5,722	76.64	28.23	48.41
1928	9,342	3,194	6,148	77.94	26.65	51.29
1929	9,759	3,328	6,431	80.30	27.38	52.92
1930	10,266	3,468	6,798	83.40	28.17	55.23
1931	9,300	2,717	6,583	74.93	21.89	53.04
1932	8,147	1,789	6,358	65.19	14.31	50.88
1933	7,501	1,786	5,715	59.64	14.20	45.44
1934	8,767	2,892	5,875	69.24	22.84	46.40
1935	9,650	3,546	6,104	75.69	27.81	47.88
*1936	10,200	3,847	6,353	79.44	39.96	49.48
*1937	11,900	5,300	6,600	92.25	41.09	51.16

Source: National Industrial Conference Board. Tax refunds are excluded from receipts. * Estimated.

Today the total tax burden in the United States is higher than ever before and the burden is distributed very unevenly, with business laboring under a multitude of different taxes, many of which overlap. Business corporations have been an outstanding target for taxation from all quarters because of the relative ease of collection and the fact that such taxes are not remitted directly by the public. In the final analysis, however, a tax upon a corporation is

a tax upon the public in that it must be paid jointly by the corporation's shareholders, its employes and its customers.

In the case of the railroads, preferred and common dividends paid last year by all Class I systems amounted to approximately $170,000,000, of which about one-fifth was paid to other railroad corporations, leaving about $135,000,000 paid to the public and institutional investors. Taxes paid by these railroads last year totaled $320,000,000, or more than twice the dividends paid to shareholders. Taxes paid were more than one-sixth of the total compensation paid to all railroad employes.

The American Telephone & Telegraph System, which has maintained a higher rate of earnings than is true of most railroads, paid dividends of approximately $168,000,000 to its shareholders last year, but also paid $117,000,000 in taxes. Telephone tax assessments amounted to one-fourth of the entire telephone payrolls, and averaged $8.36 for every telephone in service.

Last year the electric light and power companies paid taxes of approximately $270,000,000, which absorbed 15 per cent of their gross operating revenues and amounted to four-fifths of their net income after taxes.

Industrial and Trade Taxes

It will be granted that the tax situation is particularly acute in the case of the railroads and other utilities. In manufacturing and trade lines, the chain stores and the petroleum, tobacco, liquor and other industries have been singled out for heavy tax burdens. Numerous annual reports of corporations that have published taxes separately in their financial statements, together with dividends, and, in some cases, wages paid, illustrate what an important new "partner" in sharing corporate income the tax collector has become in many instances.

The petroleum industry—one of the heaviest taxpayers—paid in 1936 approximately $1,173,000,000, or 11 per cent of all Federal, State and local government taxes in this country. One-fourth of the gross income received from the sale of gasoline, lubricants and other oil products was taken by taxes. Referring to industry generally, it is not uncommon for a large corporation to be required to prepare, file and pay upwards of five hundred separate tax returns in the course of a year.

Last year total taxes absorbed about 17 per cent of the estimated total national income produced in this country, and if taxes had been sufficient to fully cover government expenditures they would have absorbed 28 per cent of the national income. Of course, all this has its effect upon the cost of living for everyone.

The Rise in Non-Ferrous Metals

The sensation of the commodity markets is the strength in the non-ferrous metals, which have risen to new highs in March for the fifth month in succession. All the metals have advanced together, copper from 9¾ cents to 17, lead from 4.65 to 7.75 (later dropping to 7.00), and zinc from 5.22 to 7.85, all since November 1, 1936. These are New York prices, and the rise in London has been even greater.

The accepted view in this country is that the London market has led the advance, New York following, as was necessary to prevent the United States from being denuded of metal. To be sure, some English observers cite the strength in New York as a cause of the London advance, and it is true that the demands of American consumers, for copper particularly, have been greater than producers could supply. However, domestic producers have marked up prices only after London advances, and even then have held their quotations below the London parity. Moreover, speculation has been more active in London. In this country consumers have been buying ahead, but there has been little public trading, while in London the turnover on the Metal Exchange has broken long-standing records. The speculative buying is based on a belief that the nations will use vastly increased amounts of the metals on armament, and must accumulate reserves accordingly.

Producers generally deplore this speculation. Temporarily it gives them a higher price, but they recognize the uncertainties. If the calculations of the speculators are correct their participation need not prove disturbing. But if they have miscalculated, other buyers unfortunately will incur losses with them, and meanwhile production may be over-stimulated and consumption discouraged. Producers as well as consumers want the upswing to be orderly and natural. Mr. Louis S. Cates, president of the Phelps Dodge Corporation, is quoted in the press in this language:

> Fundamentals rather than temporary statistics should be the guiding influence. . . . The industry was making steady progress in a steady way. It would be a pity to bring about hectic conditions which in the nature of things could not last.

Increasing Consumption of Copper

The copper position has been improving since 1932. Consumption in this country in 1936 was more than 200,000 tons larger than in 1935, the greatest gain ever made in one year, except 1915. All the principal users increased their takings largely. Surprisingly, the building industry used more copper than in 1929, despite the reduced building activity, a showing which reflects the greater use of brass pipe, copper tubing and other products in construction. Many of the newer industries such as electric refrigeration also took more copper than ever before. On the other hand, demand from the telephone and telegraph and electric light and power companies was still disappoint-

ingly small, and consumption of new copper was therefore 28 per cent below the 1929 peak. A substantial improvement in consumption by the utilities in 1937 seems certain.

To meet the increased demand, domestic copper production was stepped up sharply in 1936 to 613,000 tons from 339,000 in 1935. Nevertheless, stocks continued to fall, and at the end of the year were down to 300,000 tons from the peak of 691,000 at the end of 1932. The following table shows the improvement that has taken place:

Production and Consumption of Refined Copper in the United States, Preliminary

(Thousands of Short Tons)

	1929	1932	1935	1936
Produced from domestic ores	991	228	339	613
Produced from foreign ores, etc., and imports	446	201	268	199
Total new refined copper	1,437	424	607	812
Stocks at end of year (refined and blister)	403	691	411	300
Exports of metallic copper	452	125	275	238
Domestic consumption, new copper	889	260	441	644
Recovered from old scrap	404	181	362	385*
Total domestic consumption, new and scrap	1,293	441	803	1,029*

* Estimated.
Source: Bureau of Mines.

Outside the United States, copper consumption has been above 1929 figures in each of the past three years. Consumption of 1,240,000 tons last year was not much above 1935, but 30 per cent more than in 1929. The increase has been due to electrification, to the building boom in Great Britain, to war preparations, and general industrial revival. Japan and Russia, countries which are still young industrially, used 125,000 tons more than in 1929.

Production of copper abroad was restricted by agreement of producers beginning June 1, 1935. As it turned out, the restriction was carried farther than advisable. The agreement was renewed in April, 1936, and in a few months thereafter the London price began to rise above the New York price, giving the first indication of the sellers' market. Accordingly, restrictions were relaxed by consecutive increases in the quotas; and in January of this year the quotas were abandoned and all restrictions on output withdrawn.

No Shortage Feared

With increased production expected as time goes on, no authority on the copper outlook fears a shortage. There is every incentive to expand mine operations all over the world.

Last December, the United States Tariff Commission, in giving out an optimistic statement regarding the outlook for the American copper industry, stated that at the price copper was then selling (11 - 11½ cents) even the high-cost mines could make money. Since then operations have been resumed on properties closed by the depression, including Ray and Chino, the Quincy and Copper Range properties in Michigan, the closed Calumet and Hecla mines, and others. Costs are rising, but still are lower than in 1929, and present prices obviously are profitable. Both gold and silver are higher in price and these are produced as by-products at most copper mines.

Capacity mine production in this country, according to reliable authorities, could bring out from 1 to 1.1 million tons a year, while abroad the capacity is conservatively placed at 1,750,000 tons, a total world capacity of 2,850,000 tons compared with peak production in 1929 of 2,100,000 tons, and 1936 consumption (new copper) of 1,900,000.

Scrap copper is also a major source of supply, which will tend to increase with the rise in price and the expanding rate of manufacturing activity. In all metals the secondary production is far more important in the markets than it was a few years ago. In 1913 the amount of copper recovered from old scrap (Bureau of Mines calculations) was only 20 per cent of the consumption of new refined copper, but in 1929 had risen to 46 per cent, and during the depression, in 1934, it rose temporarily to 96 per cent. It was apparently about 60 per cent in 1936. As total stocks of metals in use grow larger with time, larger quantities of old scrap obviously become available. In recent months a good deal of copper from scrap has been moving to Europe, but if foreign prices fall below ours, which is the normal relationship in view of our tariff, this metal will again be offered in our markets.

The Lead Market

London has also shown the way in the advance in lead prices to 7.75 cents in the middle of March, the highest since 1927. Undoubtedly speculation based on armament demands has been a strong influence, though second in importance to the business revival. Mr. C. H. Crane, President of the St. Joseph Lead Company, is quoted as telling his stockholders at their annual meeting early in the month that the sharp advances were unhealthy, although he enumerated many factors of strength in the market. Soon thereafter both London and New York markets declined, the domestic producers reducing the price to 7 cents.

Production of lead in the United States in January and February was 15 per cent above a year ago, but the increase in shipments was 42 per cent. The earliest improvement in consumption was chiefly in storage batteries, accounting for 25 to 30 per cent of all lead consumed, and in pigments (white lead, red lead and litharge). Recently cable manufacture has increased to the point where it is again the largest user of lead, and so far this year has consumed three times as much as in the same period of 1936.

Stocks on hand were reduced during 1936 to 172,000 tons, compared with 216,000 one year earlier and the peak of 224,000 at the end of 1934. At the end of February they were further reduced to 157,000. This is still a comfortable figure, four times greater than at the end of 1929, and equal to more than three months' shipments at the current rate. These stocks are strongly held, chiefly by one producer. Unlike copper stocks, lead reserves are of sufficient size to provide an immediate rather than a potential corrective of a run-away market.

Scrap lead is an important factor in consumption. About 75 per cent of the lead used in storage batteries comes back on the market within approximately 30 months, and in 1935, the latest year for which figures are available, the ratio of secondary to primary lead production was 87 per cent, the highest on record. Naturally the incentive to recover lead becomes greater as the price rises and the scrapping of used automobiles increases.

Improvement in Zinc

The zinc industry during 1936 improved its position for the fourth consecutive year. Production and consumption both have increased each year since 1932, while stocks have declined steadily since the end of 1930. Zinc has much more nearly approached 1929 levels than either copper or lead; in fact, deliveries to consumers during 1936 were only 10 per cent below the record for 1929, while production was about 20 per cent below. Stocks of slab zinc at the end of February were only two weeks' supply, based on the February rate of consumption.

Abroad the position of zinc is less strong. Following the breakdown of the zinc cartel late in 1934, foreign production increased rapidly and in 1935 exceeded 1929 levels. Stocks began to accumulate, and even as late as last Summer exerted a depressing influence on the foreign price, which necessitated lowering the New York price to keep foreign zinc out of the market. Subsequent efforts to revive the cartel have been unsuccessful.

The outlook for zinc consumption is bright. Its use in die castings has increased rapidly. Improved galvanizing methods have been developed which increase the thickness of the zinc coating and promise to make this field, which has long accounted for more than 40 per cent of zinc consumption, even more important. The use of zinc pigments in paints continues to grow while metallic zinc powder paints are also rapidly increasing in favor. Zinc is less affected than copper and lead by the return of secondary metal from scrap sources, the amount remaining remarkably constant at about 25 per cent of new production.

At the present price of 7.50 cents, East St. Louis, zinc is selling 70 points above the 1929 high and the highest since 1926. Consequently, there is an incentive to further exploitation of ore resources. Since much of the zinc produced in the world comes from copper-zinc and lead-zinc ores, the increase in lead and copper production will itself bring about increased zinc production.

Tin Quotas Increased

The supply of tin has been regulated by an international agreement among the chief producing countries since March 1, 1931, and the agreement has recently been renewed, until December 31, 1941. Today's problem, however, seems to be one of increasing production, rather than "controlling" it. Shipments for January and February, from five countries which usually account for 98½ per cent of the exports under the agreement, were 9,351 tons below the 32,808 tons allowed under the 100 per cent quota then in effect. Moreover, total shipments at the end of last year were 9,322 tons behind the quotas. Stocks, which were 52,000 tons when the agreement was signed, and 13,423 tons at the low point in September, 1935, were 22,756 tons at the end of February, only 1½ months' supply. This compares with a one month's supply at the low point, so that in the seventeen month period during which restriction has been relaxed, only a two weeks' supply has been added to world stocks.

Until the recent advance the price of tin for 3½ years had been steady between 40 to 50 cents a pound. In the middle of February this year it began to rise, reaching a peak of 67 cents by the middle of March, a ten year high. The Committee thereupon raised second quarter quotas to 110 per cent, and stated that world stocks should increase at the rate of 2,700 tons monthly when this quota became effective. World consumption is rising, and in January was 18 per cent above a year ago.

Acceleration of the Recovery Abroad

In many foreign countries the acceleration of the business recovery during the past six to eight months has been as marked as in the United States. In particular, the countries which are chiefly producers of raw materials and foodstuffs have benefited strikingly by the rise in commodity prices and the increase in their trade. They are selling more, and at higher prices, improving their balance of payments and their domestic economy; and other countries are benefiting by their improvement.

Since June, 1936, the price index of the London Economist, one of the best indicators of international prices of industrial and agricultural raw materials, has advanced from 75.5 to 92.0 (1929=100). This is a considerably greater advance than in the preceding four years of the recovery. At the same time the volume of these exports has increased rapidly. During the last quarter of 1936 exports of a

dozen representative raw-material producing countries (expressed in pounds sterling) increased more than 17 per cent over the corresponding quarter of 1935. The accompanying chart shows these values to be approaching the 1929 figures. Allowing for lower prices, the physical volume of exports is evidently about equal to 1929, but purchasing power is not quite up.

For this reason, and also because they have had debts to pay, the imports of these countries have not increased as fast as their exports. Their export surpluses in many instances are comparable to the best of former years.

Relation of Principal Out- and In-Payments of Countries Producing Raw Materials

(In Millions of Dollars)

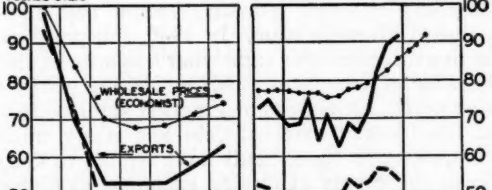
Country	Approximate Int. & Divid. Out-payments 1929 Old $	1935 New $	1936 Trade Balance	1936 Gold Exports‡	1936 Trade & Gold Total
Canada	218	250†	+332	126	+458
Australia	171	140e	+ 78	42	+120
South Africa	76	130e	—261	397	+136
Argentina	189	148	+158	......	+158
British India	115	119	+219	110	+329
Brazil	*110	* 90e	+ 73	4§	+ 77
Dutch East Indies	127	71	+211	3	+214
New Zealand	43	40	+ 46	4	+ 50
Uruguay	15	......	+ 13	......	+ 13

* Amortization payments included. ‡ Shipments of newly-mined gold. † 1936. § Gold production. e—Estimated.

Note—Indian gold exports include the shipments of hoarded gold.

The extent of the improvement that has taken place in these countries may be appreciated by study of the above table, in which the export balances of important debtor countries are compared with the interest and dividend payments they are required to make. Although a comparison of this kind does not include all factors it shows the great progress in adjustment of their international payments and the solution of the transfer problem. During the last six months reports of steadier or even rising

The Trend of Merchandise Trade of the Countries Producing Raw Materials



(The figures comprise merchandise trade of the following countries: Argentina, Brazil, Canada, Chile, Uruguay, Peru, Australia, New Zealand, Union of South Africa, Egypt, British Malaya and Netherlands East Indies.)

exchange rates, of prompter collections, of foreign exchange available to importers, etc., have been the rule, rather than the exception.

Canada Accumulates a Surplus for Investment

Canada provides one of the most striking examples of recovery and increased purchasing power. With the exception of steel, building and a few minor lines, the country's economic activities have climbed back to pre-depression levels. Although 1936 crops were below the average, their value increased by over 20 per cent, to almost $600,000,000. The liquidation of old wheat stocks at good prices and the increasing diversification in the prairie provinces have raised the hopes of western farmers. The newsprint industry has had a remarkable comeback and is now producing at a rate over three times that of the United States.

The value of Canadian mining output exceeded $1,000,000 a day during the last half of 1936. Almost half of this total was contributed by the gold mining industry, which continues to spread into new areas. The extraction of non-ferrous metals, aided by the heavy capital investments made before the depression, and development of rich new ore-bodies, is now coming into its own. Copper and nickel output doubled in the 1929-1936 period, and zinc increased at least 50 per cent, while lead production was maintained at about the same level as in 1929. Total 1936 mining output of Canada was about 26 per cent larger than in 1929.

Merchandise and gold exports, which play a much more important part in the Dominion's economy than in our own, once more topped the billion dollar mark last year. The favorable trade balance of $458,000,000 (including shipments of newly-mined gold) has been exceeded only in a few war and post-war years. Tourist expenditures contributed an estimated $165,000,000 to the national income.

Canadian interest and dividend payments abroad, amounting to $250,000,000, were the largest in the country's history, exceeding even the 1929 figures. Nevertheless, the country accumulated a surplus in its international accounts which the Dominion Bureau of Statistics estimates at $318,000,000. This enabled Canada to reduce her external indebtedness during the year by more than $250,000,000, and to invest considerable capital abroad. Thus, Canada is not only becoming less dependent upon foreign capital, but has started the long trend toward becoming a creditor nation.

Sounder Prosperity in Argentina

The inflow of foreign capital into Argentina, at a time when the peso is still subject to control, reflects the profound change of sentiment which has taken place in respect to Argentina's future. It has been estimated that in 1936 at

least 250,000,000 pesos came to Buenos Aires banks, mostly from France. The new Argentine Central Bank, whose gold holdings now exceed its outstanding note liabilities by more than 40 per cent, has impounded some of these funds in a special account in a manner similar to our own Treasury's operations.

More than by the capital inflow, Argentine exchange has been helped by excellent crop yields, particularly of wheat and linseed. Moreover, the export movement was unusually brisk. In the three months ending with February, the tonnage and value of exports practically doubled as compared with a year earlier. During these three months, the country accumulated a favorable trade balance of over 460,000,000 pesos. This is truly remarkable, considering that with the exception of 1936 this figure was larger than any of its annual export surpluses back as far as 1919. It is nearly as large as the total external interest and dividend requirements, estimated in 1935 at about 520,000,000 pesos.

With such an accumulation of foreign exchange, the conversion of the Argentine dollar debt is proceeding at a fast rate. In less than five months, $203,000,000 out of the total dollar debt of $236,000,000 has been called for conversion into lower coupon bonds, or redemption from the Treasury's cash resources. Two provincial issues that had been floated in France have also been redeemed.

Sound government, courageous sacrifices made in the worst years of depression, and a greater industrial and agricultural diversification have brought their deserved reward to the Argentine people. The prosperity which they now enjoy appears to rest on a more stable footing than in 1929.

Across the River Plate, in Uruguay, whose economy is chiefly dependent upon pastoral industries, improvement has been also accelerated. The favorable balance of trade is expected to be the best since 1924.

Brazil Becoming Less Dependent upon the Coffee Crop

The situation in Brazil has improved mainly in respect to the transfer problem, with exchange firmer and the supply of export bills more plentiful. On the other hand, despite an industrial boom, the problem of Government deficits continues unsolved.

With exports averaging lately almost $30,000,000 per month, Brazil accumulated an export surplus of almost $48,000,000 during the second half of 1936 alone. This was larger than most of the annual surpluses in the post-war period, and was almost sufficient to meet the exchange requirements of the Brazilian Government, which under the present debt service arrangements are estimated at about $50 - 60 million annually. Aside from the price rise, the good export showing was the result of an effort by Brazil to free herself from dependence upon one crop as a source of foreign exchange. In 1936 the share of coffee in the total value of exports dropped to 45 per cent, as compared with 75 per cent or more before the depression. With the shipments of cotton, cocoa, fruits and vegetables increasing, it is expected that the share of coffee will eventually be brought down to about 30 per cent.

The Colombian transfer situation has also become more comfortable, largely because of good demand and rising prices of mild coffee, which still constitute nearly 60 per cent of total exports. The gold reserves of the Banco de la Republica have expanded in the last few months and it was possible to relax somewhat the exchange restrictions. The diversification of the national economy has also progressed. Gold production made a new record and industrial activity, building construction and petroleum output compare favorably with the best pre-depression years.

The present administration in Mexico is making many successful contributions toward broadening industrial activity and improving transportation facilities. In the past two years the revival of silver production has played an important part in the recovery of purchasing power. During the last few months the improvement has been extended to the mines producing lead, antimony and zinc. The value of the output of metals is now approaching $12,000,000 a month. Increases in the national revenues, in foreign trade, and lately in tourist expenditures, give further evidence of recovery.

The Peruvian trade results in 1936 were the best in a decade; the export surplus in soles has been exceeded only four times in Peru's history. Higher prices and the expanding demand for petroleum, cotton, wool, copper and even sugar have enhanced an already favorable outlook for 1937.

Copper Rise Brings Hope to Chile

During the depression years, Chile, like Argentina, has also striven for a better balanced economy through industrialization and agricultural diversification. In 1936, the progress in this direction was somewhat less spectacular because of poor farm yields and rising production costs. Extended open market amortization of the Chilean external debt and many trade compensation agreements have tended to keep down the supply of foreign exchange available for imports.

The outlook for copper, which in 1929 made up 40 per cent of Chile's exports, now is bright. Mining properties have been re-opened, and by last December production, which during most of the year had been below the 1935 average, reached the 1929 level. From now on the

Chilean trade and foreign exchange situation should improve rapidly. The national revenues will also be helped; taxes on copper companies, together with the nitrate revenues, have been set aside for the service on the Chilean foreign debt.

Encouraging Prospects in Malaysia

The revaluation of the guilder and the relaxation of the restrictions on tin, rubber and sugar production should result in a rapid recovery of the Netherlands East Indies. At the present time this rich and populous archipelago is in an excellent competitive position as a result of a drastic reduction of production costs and a financial retrenchment in the period when the guilder was still a gold standard currency. During the last quarter of 1936 the guilder value of trade rose nearly 50 per cent above the corresponding period of 1935. The new industries, introduced (and amply protected by tariffs as an expedient during the depression) should receive the benefits of an increased purchasing power.

The rising purchasing power of British Malaya, also a large producer of tin, rubber and vegetable oils, is already being reflected in the growing imports of motor cars, luxury goods, etc. Further expansion may be tempered by mounting production costs and labor troubles. Singapore reports a trade and real estate boom, to which the British defense expenditures have also contributed.

The African Markets

In another corner of the Empire, Johannesburg, the center of the Witwatersrand gold fields, also continues to enjoy an unprecedented business and real estate boom. During the last few years the gold fields have grown into one of the leading industrial areas of the world, supporting almost one million people. From these fields, which annually create nearly $400,000,000 of new wealth, the boom has spread to the manufacturing industries. South African farmers have also benefited, partly from the development of the local market and partly from the rising prices of their chief export product, wool.

To the North of the Union stretch the vast colonial empires of Great Britain, Belgium and France. Together, they constitute the third largest copper producing area, and their deposits of tin and chrome ore and of other minerals have scarcely been touched. They are also the largest producers of cocoa and palm oil. They too will benefit from higher prices and with growing consumptive capacity, will in turn provide lucrative markets for the industries of their mother countries.

British and French West Africa alone took in 1936 approximately 13 per cent of the British cotton goods exports compared with only 3 per cent in 1929. Over 27 per cent of total French exports go to her African colonies. Shortage of skilled labor looms as the principal obstacle to a more rapid extension of mining activities in Africa.

Progress Elsewhere

Another good year is in prospect for Australia as a result of the substantial increase in the export values of wheat and wool. The London balances of the Australian banks have again resumed their upward trend during the past few months, reflecting partly a better trade balance and partly the flow of foreign capital into Australian mining properties.

In Europe, Poland, Hungary, Jugoslavia and Roumania are among the beneficiaries of the rise in prices of industrial raw materials and farm products. Potentially, Poland is the third largest producer of zinc. Jugoslavia's leading mineral resources (bauxite and copper) are now producing above their 1929 level. Moreover, in all these countries, the purchasing power of the farmers, constituting the bulk of the population, has improved in relation to the products of the domestic, highly protected manufacturing industries. In turn, industrial activity has been stimulated, in Poland, for example, from 67 per cent (1929 = 100) early in 1936 to 80 per cent in January, 1937.

In the Far East, business in China has been gradually emerging from the chaotic state into which it was thrown as a result of the currency crisis in 1934 and 1935. The depreciation of the yuan has stimulated exports, especially of vegetable oils and metallic ores, the latter also benefiting from European rearmament expenditures. The recorded imports have fallen off, partly because of the large-scale smuggling, but also because of good crop yields and a revival of domestic manufacturing. Improvement in the balance of payments in 1936 has increased the stability of the new currency, confidence in which is rising. Along with a greater use of paper notes, the banking facilities have been spreading, even into the interior districts. It is possible that the monetary habits of the Chinese are really changing. Such a development would have, of course, far reaching effect upon the use of silver.

In India, silver is apparently still in demand. Purchases have again been resumed in rural districts, reflecting in part the larger purchasing power now in the hands of the Indian farmer.

Printed in U.S.A.

in U.S.A.